

Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /026 W
-----101853Z 126286 /44

O R 101820Z JAN 77

FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 9315

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY BONN

AMEMBASSY BRASILIA

AMEMBASSY CARACAS

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LIBREVILLE

AMEMBASSY MANAMA

AMEMBASSY MUSCAT

AMEMBASSY PARIS

AMEMBASSY QUITO

AMEMBASSY ROME

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

AMCONSUL DHAHRAN

USINT BAGHDAD

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 00403

EXDIS

E.O. 11652: XGDS-1

TAGS: ENRG SA TC

SUBJECT: SAUDI/UAE TALKS WITH ARAMCO PARENT COMPANIES

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BEGIN UNCLASSIFIED:

1. JANUARY 7 FINANCIAL TIMES REPORTS THAT SAUDI SHEIK
YAMANI AND UAE MINPET OTAIBA HAVE HELD TALKS IN LONDON
THIS WEEK FOR PURPOSE OF PRESSING OIL COMPANIES TO PRO-
VIDE EVIDENCE THAT THEY ARE NOT MAKING WINDFALL PROFITS

FROM THE CHEAPER OIL PURCHASED FROM THESE TWO PRODUCING STATES FOLLOWING OPEC'S SPLIT PRICE DECISION LAST MONTH.

2. OTAIBA IS QUOTED AS SAYING "WE HAVE NOT YET FOUND A WAY OR A SYSTEM TO ENSURE THE CONSUMERS THAT A THIRD PARTY WILL NOT GET ANY ADVANTAGE FROM OUR CHEAPER OIL." ASKED IF THE COMPANIES WERE BEING COOPERATIVE, HE SAID "I HOPE SO." ACCORDING TO THE FT, OIL COMPANIES WITH ACCESS TO CHEAPER OIL ARE KNOWN TO VIEW WITH ALARM THE POSSIBILITY OF DEMANDS THAT THEY SHOULD DECLARE DETAILS OF TRANSACTIONS INVOLVING SAUDI AND UAE CRUDE.

3. FT REPORTS THAT YAMANI AND OTAIBA MET TO COORDINATE POLICY AND ALSO TO CALCULATE THE CORRECT PRICE FOR THE DIFFERENT VARIETIES OF ABU DHABI CRUDE IN RELATION TO ARABIAN LIGHT MARKER CRUDE. OTAIBA WAS NOT PREPARED TO REVEAL THE LEVEL PROVISIONALLY SET BECAUSE THE OPERATING MPANIES EVIDENTLY HAVE STILL NOT AGREED TO THEM NOR HAS ANY DECISION BEEN TAKEN YET AS TO RAISING ABU DHABI'S OUTPUT.

4. FT NOTES THAT YAMANI'S CONSULTATIONS ARE UNDERSTOOD TO HAVE COVERED BOTH THE LONG AWAITED STATE TAKEOVER OF ARAMCO AND ALSO THE FOUR AMERICAN MAJORS' LIFTING NOMINATIONS FOR THE FIRST QUARTER OF L977. END UNCLASSIFIED. BEGIN CONFIDENTIAL:

5. MOBIL SOURCE STATES THAT SAUDIS AND UAE ARE SEEKING A CLEAR COMMITMENT FROM US ARAMCO PARTNERS AS WELL AS CONFIDENTIAL

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IPC GROUP OF COMPANIES (BP, SHELL, CFP, EXXON AND MOBIL) THAT THEY WILL NOT PASS ON MORE THAN FIVE PERCENT INCREASE TO CONSUMERS. CLAIMING ONLY SECONDHAND KNOWLEDGE OF TALKS WITH YAMANI, SOURCE SAID OTAIBA HAD APPROACHED IPC MANAGING DIRECTOR STOCKWELL AND ASKED FOR WRITTEN GUARANTEES TO THIS EFFECT. AFTER HURRIED CONSULTATION AMONG SHARE HOLDER COMPANIES, OTAIBA WAS INFORMED COMPANIES WILL ATTEMPT TO PROVIDE ASSURANCES AND FIND SOME WAY TO PROVIDE VERIFICATION. IT IS EXPECTED THAT GUARANTEES WILL BE GIVEN INDIVIDUALLY FROM EACH SHARE HOLDER COMPANY RATHER THAN FROM IPC GROUP JOINTLY. ALTHOUGH INITIAL US COMPANY RESPONSES HAD BEEN POSITIVE IN TONE AND EUROPEAN COMPANIES SEEM WILLING TO GO ALONG WITH PROVIDING ASSURANCES REQUESTED, SOURCE BELIEVES PRICES ESTABLISHED AND ACTUAL VOLUMES PRODUCED WILL DEPEND ON WHAT KIND OF ASSURANCES COMPANIES CAN PROVIDE ON PRICE PASS THROUGH ARRANGEMENTS. OTAIBA REPORTEDLY WAS TURNED DOWN FLAT WHEN HE REQUESTED THAT SHARE HOLDER COMPANIES REPORT BACK ON REBATES WHICH

OTHER PRODUCERS MIGHT GIVE BENEATH OPEC AGREED TEN
PERCENT PRICE HIKE.

6. EXXON SOURCE, ONE STEP REMOVED FROM TALKS WITH
YAMANI, WAS UNABLE TO OFFER MUCH DETAILED INFORMATION.
HE DID NOTE HOWEVER THAT THE SAUDIS CLEARLY WANTED FIVE
PERCENT PASS THROUGH ASSURANCES TO BE AS FOOL PROOF AS
POSSIBLE. TYPICALLY WHILE THEY RECOGNIZED THERE WERE

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FM AMEMBASSY LONDON

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INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY BONN

AMEMBASSY BRASILIA

AMEMBASSY CARACAS

AMEMBASSY DOHA

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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 00403

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PROBLEMS AND LIMITATIONS, IT WAS LEFT TO THE COMPANIES TO WORK OUT A PRACTICAL SYSTEM. SOURCE NOTED THAT THERE WERE SEVERAL REAL DIFFICULTIES TO IMPLEMENTING THE CONFIDENTIAL

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ARAMCO SHAREHOLDERS' IN-PRINCIPLE AGREEMENT TO PROVIDE ASSURANCES. FIRST, THERE ARE LEGAL RESTRAINTS AS TO WHAT THE COMPANIES COLLECTIVELY MAY SAY OR DO REGARDING PRICING, ALLOCATION AND RELATED SUBJECTS. DEPARTMENT OF JUSTICE CLEARANCE MUST BE OBTAINED BEFORE THE US COMPANIES CAN EVEN BEGIN TO TALK IN DETAIL ABOUT SATISFYING THE SAUDI-UAE REQUEST. SOURCE ASSUMED THIS OBSTACLE WAS BEING ATTENDED TO PROMPTLY. SECOND, THERE WAS THE POLITICAL PROBLEM OF OBTAINING CONSUMER GOVERNMENT AGREEMENT TO OR ACQUIESCENCE IN OIL INDUSTRY OPERATION OF AN ALLOCATION SYSTEM. REFERRING TO THE 1973-74 OIL EMBARGO, HE DECLARED THAT THE COMPANIES WOULD BE IN A TERRIBLY DIFFICULT POSITION SHOULD CONSUMER GOVERNMENTS VIE WITH EACH OTHER FOR DISPROPORTIONATE SHARES OF LOWER PRICED SAUDI OR UAE CRUDE. FURTHER, THERE WAS THE PROBLEM OF PICKING AND CHOOSING BETWEEN INDIVIDUAL CUSTOMERS WHO MIGHT COMPLAIN OR EVEN SUE ON THE BASIS THAT THEY WERE BEING DISCRIMINATED AGAINST. ALSO, WHILE THE PRICE TO AN AFFILIATE, REFINER OR OTHER INITIAL PURCHASER MIGHT BE CONTROLLED' HOW COULD THE RETAIL PRICE OF SAUDI/UAE-DERIVED PRODUCTS BE SIMILARLY CONTROLLED BY AN ARAMCO PARTNER. FINALLY, THERE WAS THE PROBLEM OF THE MANNER IN WHICH EITHER ARAMCO OR PETROMIN MIGHT DISTRIBUTE EITHER THE INCREMENTAL OR TOTAL ARAMCO PRODUCTION AMONG OTHER NON-ARAMCO OIL COMPANIES, BE THEY INTERNATIONAL MAJORS, STATE COMPANIES OR INDEPENDENTS.

9. EXXON SOURCE COMMENTED THAT HE PERSONALLY THOUGHT IT MIGHT BE DISASTROUS TO RELY ON EACH CONSUMER STATE TO INSTITUTE PRICE AND ALLOCATION MECHANISMS. HE SUGGESTED THAT THERE MIGHT BE SOME MERIT IN THE IEA OR THE OECD PROVIDING A LEGAL UMBRELLA UNDER WHICH THE OIL COMPANIES MIGHT PERFORM THE REQUIRED FUNCTIONS. HE ACKNOWLEDGED THAT IT WOULD BE HARD TO VISUALIZE THE SAUDIS OR UAE AGREEING TO, OR EVEN BY IMPLICATION BEING INVOLVED IN' AN ALLOCATION SYSTEM RUN UNDER IEA AUSPICES. THE ONLY CONFIDENTIAL

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ALTERNATIVE WOULD BE FOR THE SAUDIS AND UAE IN EFFECT TO

ADMINISTER PRICES IN CONSUMER COUNTRIES AS BEST THEY
COULD.

10. SINCE THIS CABLE WAS WRITTEN, JANUARY 10 FINANCIAL
TIMES REPORTS MIDDLE EAST ECONOMIC SURVEY AS SOURCE OF
SAUDI STATEMENT THAT FOUR ARAMCO PARTNERS HAVE AGREED
TO MARKET ALL ADDITIONAL QUANTITIES MADE AVAILABLE--
FOLLOWING SAG DECISION TO RAISE PRODUCTION CEILING TO
10 M/B/D DURING THE FIRST QUARTER OF 1977--ONLY THROUGH
REFINERS AND USERS (NOT BROKERS) AT PRICES SET BY SAG
INVOLVING THREE TO FIVE PERCENT INCREASE. FT NOTES
COMPANIES RELUCTANTLY COMPLIED WITH SAUDI DEMAND THAT
THEY AND SUBSEQUENT BUYERS OF THE CRUDE SHOULD SUBMIT
AUDITED REPORTS CONCERNING "ALL SUCH CRUDE MARKETING BY
THEM SPECIFYING PRICES, DESTINATIONS AND TRANSPORTATION
COSTS." NO SIMILAR ARRANGEMENT REPORTEDLY HAS BEEN
WORKED OUT YET BY THE UAE.

11. THE SAUDI STATEMENT ALSO CALLS ON CONSUMER COUNTRY
GOVERNMENTS TO SEE THAT THE CONSUMER BENEFITS FROM LOW
PRICES. THE AIM IS EXTRA OIL SHOULD BE DISTRIBUTED
"IN THE SAME PROPORTION AS SAUDI CRUDE HAS BEEN
EXPORTED TO SUCH COUNTRIES IN THE PAST." ARMSTRONG

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Message Attributes

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